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SOCIAL SECURITY

A Guide for Human Resources Specialists

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INTRODUCTION

This reference guide provides basic Social Security information as well as the interaction between Social Security and Federal retirement systems. Specific information and questions related to individual entitlements under the Social Security program should be directed to the local SSA office.

In order to address Social Security provisions for Federal employees, it is important to review the historical background of Federal retirement systems.

Prior to 1987, most Federal employees were covered under the Civil Service Retirement System (CSRS). Employees excluded from CSRS coverage by law, such as employees hired under temporary appointments, were covered under Social Security or the Federal Insurance Contributions Act Tax (FICA).

The Social Security Amendments Act of 1983 provided Social Security coverage for all Federal employees newly hired *or* rehired after a break in service of more than 365 days on January 1, 1984. By law, these employees were also covered by CSRS. In order to preclude these employees from contributing 12.4% of their salary to retirement (7% for CSRS and 5.4% to Social Security), Congress passed the Federal Employees' Retirement Contribution Temporary Adjustment Act of 1983. This Act amended the Civil Service system so that 5.4% of the overall retirement contribution was transferred to Social Security, with the remaining amount being deposited in CSRS. This plan was designated as an *interim* plan.

Although the interim plan was intended to briefly provide coverage until a new Federal plan could be developed, it was actually January 1, 1987, before the new Federal Employees Retirement System (FERS) was affected. By that date, some employees who were *interim* had become vested in CSRS, having 5 years of coverage under that system. As of January 1, 1987, these vested employees who were previously covered under the interim program became members of the CSRS Offset System. Employees with less than 5 years of coverage on December 31, 1986, were automatically covered under FERS. In addition, employees who elected FERS coverage during transfer opportunities, certain employees excluded from CSRS coverage and employees first appointed on or after January 1, 1984, are also subject to FERS. For detailed information on retirement coverage determinations, please refer to FAS Reference Guides numbers 201, 202, and 203.

At any activity it is possible to have employees with retirement coverage under CSRS, CSRS Offset, FERS, and FICA. In addition, employees may be covered under FERS but because of prior creditable CSRS service, also have a CSRS retirement component. Social Security directly affects those covered by FICA, CSRS Offset, and FERS and may also affect the benefits of CSRS employees. This guide will initially describe the general provisions of the Social Security program and will follow (starting on page 13) with a

description of how the Social Security program impacts with the Federal retirement system.

BECOMING INSURED UNDER SOCIAL SECURITY

An individual becomes qualified for retirement, survivor and disability benefits under Social Security by becoming **insured**. To be insured a person must acquire a certain number of credits (formerly referred to as quarters of coverage).

Credits can be acquired at any age, even before age 21 or after retirement age. It is immaterial when the credits are earned. Credits are not used in determining the amount of money in a particular Social Security benefit check. Credits are used only to determine insured status. Calendar years rather than quarters of coverage are used in the computation and earnings are modified to reflect current values.

In calendar year 2003 an employee receives one credit of coverage for each \$890 of earnings up to a maximum of four credits per year. Anyone earning at least \$3,560 in calendar year 2003 will receive the maximum of four credits for that year. The number of credits required for the three types of **insured status** depends on the age of the worker and the type of benefit for which the worker is applying.

Fully Insured

A person is fully insured if he/she has 40 credits. This usually translates to 10 years of Social Security covered work. When this is achieved the employee is fully insured for life.

Additionally, a person is fully insured if:

- ◆ He/she has at least 6 quarters of coverage, and
- ◆ He/she has acquired at least as many credits as there are years elapsing after 1950 (or, if later, after the year in which he reaches age 21) and before the year in which he dies, becomes disabled or reaches or will reach age 62, whichever occurs first. If a year falls within an established period of disability, that year need not be counted.

Currently Insured

The term currently insured means that an applicant is tied to or participating in the workforce. A person is currently insured if he/she has at least six quarters of coverage during the full 13-quarter period ending with the calendar quarter in which he/she:

- ◆ most recently became entitled to disability benefits (applicable if there is more than one period of disability),
- ◆ became entitled to disability benefits, or
- ◆ died

Insured Status for Disability Benefits

A person is insured for disability benefits if he/she is:

- ◆ fully insured, and
- ◆ has earned at least 20 credits out of the last 40 calendar quarter period ending with the quarter in which the person is determined to be disabled. Typically, if the employee worked under Social Security for at least five of the last 10 years before becoming disabled, this requirement will be satisfied.

Note: If disability begins between the ages of 24 and 31, the employee must have earned at least one-half (but not less than six) of the possible quarters after reaching age 21 and before becoming disabled. If the number of elapsing quarters is an odd number, the next lower even number is used. Thus, if a person becomes disabled in the quarter in which he attains age 25, he/she must have 8 credits earned within the 16-quarter period ending with the quarter in which the disability began.

COMPUTATION OF BENEFITS

Benefits are computed based on the average total earnings over the employee's entire work life. For employees born after 1928, Social Security will never use more than 35 years of earnings. These earnings are adjusted to reflect wage levels prevailing shortly before retirement, disability, or death and are then divided by 420 months (35 years). This figure is referred to as the **Average Indexed Monthly Earnings (AIME)** and is used in a formula to determine Social Security benefits. This formula changes each year. The calendar year 2003 formula for computing a benefit or **Primary Insurance Amount (PIA)** is:

90% x first \$606 of AIME plus
32% x amount over \$606 thru \$3,653 (\$3,653 - \$606 = \$2957) plus
15% x AIME over \$3,653

RETIREMENT BENEFITS

The PIA serves as the bases for determining the amount of money in a Social Security retirement benefit check. The amount of the benefit may be adjusted based on several factors, including the Government Pension Offset (GPO), Windfall Elimination Provision (WEP) or the receipt of retirement benefits before the full retirement age. GPO and WEP are explained on pages 15 and 16. Individuals, who elect to receive retirement benefits at the minimum retirement age of 62, will be subject to a reduction of 20%. This reduction will be applied to the benefit for the lifetime of the individual and is not reduced when the individual attains full retirement age. Beginning in calendar year 2000, the full retirement age will gradually increase to 67. As the full retirement age increases, the reduction will also increase to 30%. Additional credit is also granted to individuals who delay the

receipt of retirement benefits past full retirement age. The maximum credit of 8% is added to the retirement benefit payable at age 70.

DISABILITY RETIREMENT UNDER SOCIAL SECURITY

Eligibility Criteria

An individual is entitled to Social Security disability benefits if he/she meets **all** the following requirements:

- ◆ is insured for disability benefits,
- ◆ is under age 65,
- ◆ has been disabled for 12 months, or is expected to be disabled for at least 12 months, or has a disability which is expected to result in death,
- ◆ has filed an application for disability benefits, and
- ◆ has completed a 5-month waiting period or has been exempted from this requirement

The Social Security Administration defines disability as the inability to engage in any **substantial gainful activity** (SGA) by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted, or can be expected to last, for a continuous period of not less than 12 months.

SGA is defined as the performance of significant physical or mental duties that are productive in nature and performed for remuneration or profit, and generally have average earnings of \$800 or more a month. To be substantial, it need not be performed on a full-time basis. In some cases, a Federal employee still working, even though awaiting CSRS/FERS disability approval, will typically be denied Social Security benefits on the basis of his or her engagement of SGA. Applicants should be aware that in such a situation, the disability retirement claim is not forwarded by the claims representative for disability review. However, once the CSRS/FERS disability is approved resulting in a separation from Federal employment, the claimant should reapply under Social Security. Unfortunately, many potentially eligible applicants who have been denied due to SGA fail to reapply subsequent to retirement or resignation. These individuals may be eligible for Social Security disability benefits after they have stopped working.

The applicant's impairment must be the primary reason for his/her inability to engage in substantial gainful activity. Age, education and work experience are also taken into consideration in determining the individual's ability to do **any** work. This differs significantly from CSRS/FERS disability where OPM will review an applicant's inability to do his/her **current job**. This more stringent criteria is evident in the broad questions required in the SSA Disability Report. Listed below are some key questions that an applicant must be prepared to answer when applying for disability.

- ◆ What is your disabling condition?
- ◆ When did your condition first bother you?
- ◆ Did you work after that date?
- ◆ When did your condition finally make you stop working?
- ◆ How does this condition prevent you from working now?
- ◆ List the name, address and telephone number of the doctor who has the latest medical record regarding your disabling condition and any other physicians you have seen since your disabling condition began.
- ◆ Provide date and location of any tests performed (electrocardiogram, any x-ray, breathing or blood tests).
- ◆ Describe daily activities such as cooking, cleaning, shopping, recreational activities, hobbies, social contacts, and method of transportation.
- ◆ List and describe all jobs you have held in the last 15 years.

Disability Application Processing

The first step taken by an individual when applying for benefits is to make an appointment with Social Security by calling 1-800-772-1213. If the applicant suffers from a terminal illness, i.e. AIDS or cancer, the ailment should be indicated to the service representative when making the appointment. The allegation of a terminal illness typically requires expedited processing of the claim. The representative will electronically communicate with the applicant's local claim office to schedule an appointment. The applicant will be mailed a confirmation notice and a disability application, Form SSA-3368-BK. The applicant should complete this form in its entirety prior to the appointment date. In many instances this is the applicant's only opportunity to describe the nature and extent of his/her disability.

Five Month Waiting Period

When a claim is approved, no benefits are payable for the first five full months of disability. Benefits start with the 6th full month of disability.

Medicare

A Social Security disability beneficiary is covered under Medicare after entitlement to disability benefits for 24 months or more. Those covered include, disabled workers at any age, disabled widows/widowers age 50 or over, and beneficiaries age 18 or older who receive benefits because of disability beginning before age 22. Coverage will continue for 24 months after an individual is no longer entitled to receive disability payments because he/she has returned to work, provided the disabling condition continues.

Termination of Benefits

Entitlement to disability benefits ceases:

- ◆ The second month after the month in which the disability ceases
- ◆ The month before the month the worker attains full retirement age (at which time benefits are automatically converted to retirement benefits)
- ◆ The month before the month in which death occurs

Trial Work Period

The Trial Work Period is a program that allows disabled beneficiaries to work up to 9 months (within a 60-consecutive-month period) without affecting the right to benefits during the trial work period, if the impairment does not improve during this period. The trial work period is provided as an incentive for personal rehabilitation efforts for disabled workers, widows and childhood disability beneficiaries. Any work and earnings during the 9 months are disregarded in determining whether the disability ceased during the trial work period. However, should a medical recovery occur during the work period, benefits might be terminated. Only one trial work period is allowed in any one period of disability.

FAMILY BENEFITS

Family members of Social Security beneficiaries may also be eligible to receive a benefit. Covered family members include spouses, former spouses, and children.

Spouse Benefits

If a worker is receiving retirement or disability benefits and his/her spouse meets certain conditions, Social Security benefits may be payable to the spouse. The spouse must be age 62 **or** be caring for a child under age 16 (or a disabled child of any age) who is entitled to children's benefits. A spouse **eligible** for Social Security benefits based on his/her own employment will receive a spouse benefit only if that benefit exceeds his/her own benefit. The individual is entitled to receive his/her benefit plus the difference between this benefit and the higher spouse benefit.

Example #1: Sally, age 65, worked in a position covered by Social Security and is eligible for benefits based on this employment. Her individual benefit is \$350 per month. Her husband receives a Social Security benefit of \$1000 per month. Based on his benefit, Sally is eligible for a spouse benefit of \$500 per month. Sally will actually receive \$500 per month.

	\$500	Sally's spouse benefit (half of her husband's \$1000 benefit)
-	<u>\$350</u>	Sally's earned benefit
	\$150	Difference between Sally's spouse benefit and earned benefit
+	<u>\$350</u>	Sally's earned benefit
	\$500	Sally's total monthly benefit

Example #2: Alice is eligible to receive a Social Security benefit of \$650 per month based on her own employment record. She is also eligible for a spouse benefit of \$400 per month based on her husband's employment. She will receive \$650 per month. Alice's own benefit is greater than the spouse benefit, therefore no additional amount is payable.

Former Spouse Benefits

Former spouses may also be eligible for spouse Social Security benefits if certain conditions are met. The worker does not have to be retired, but must be at least age 62 and eligible to receive Social Security benefits. The former spouse must be at least age 62 **or** caring for a child under age 16 (or disabled) who is entitled to children's benefits. In addition, the marriage must have lasted for at least 10 years and the former spouse must be unmarried. The length of marriage requirement is waived if the former spouse is caring for children who receive benefits. When the former spouse is eligible for an equal or higher benefit based on his/her own Social Security record or on someone else's Social Security record, no other benefit is payable.

Children's Benefits

Children of retired or disabled workers, under age 18, may be eligible to receive Social Security benefits. Unmarried children under age 19 enrolled as full time students in elementary or secondary school, **and** severely disabled children over age 18 (who became disabled before age 22) may also be eligible for a benefit.

Amount of Benefit

- ◆ Usually a ***family member*** will be eligible for a monthly benefit that is up to 50 percent of the worker's retirement or disability rate.
- ◆ The benefit for a ***spouse*** at age 62 is 37.50 percent of the worker's benefit. The benefit increases to 50 percent at age 65. A spouse who is caring for a child under age 16 (or disabled) receives the full 50 percent benefit regardless of age.
- ◆ The amount of benefit a ***former spouse*** receives has no effect on the amount a retiree or other family member can receive.
- ◆ There is a ***limit*** to the amount that can be paid on each Social Security record. Generally this limit is 150 to 180 percent of the retiree's record. If the sum of benefits payable on the account is greater than the limit, the family benefits will be reduced. The worker's benefit will not be reduced.

Family benefits are subject to the earnings test.

SURVIVOR BENEFITS

Survivor benefits in the form of continuing cash income may be payable upon death. The deceased employee must have earned credit for work covered by Social Security, ranging from 1 1/2 to 10 years. Eligible family members include:

- **Widow or widower** at age 60 or older (50, if disabled). The deceased must have been ***fully*** insured.
- **Divorced widow or widower** at age 60 or older (50, if disabled) ***and*** the marriage lasted at least 10 years. These individuals cannot be eligible for equal or higher

benefits based on their own earnings. Eligibility continues if remarriage occurs at age 60 or older (50, if disabled). The deceased must have been **fully** or **currently** insured.

- **Unmarried children** under 18 (or up to age 19 if attending elementary or secondary school full time) or adult children who became disabled before age 22 as long as they remain disabled.
- **Young mother or father** caring for child (ren) of the deceased under age 16 (or disabled and receiving social security benefits). The deceased must have been **fully** or **currently** insured.
- **Dependent parent(s)** at age 62 or older if dependent on deceased for at least half of their support.

Lump Sum Death Payment

A special one-time payment of \$255 may be payable if the deceased employee had enough Social Security credits. This payment is made to the surviving spouse, or in certain circumstances, minor children. It is payable at any age as long as the deceased was fully or currently insured under Social Security. The spouse must have been living with the deceased at the time of death.

Amount of Benefit

- ◆ The amount payable to each survivor is 75 to 100 percent of the deceased worker's benefit.
- ◆ The limit varies, but is generally equal to 150 to 180 percent of the deceased worker's benefit rate. Benefits above this rate will be proportionately reduced.
- ◆ Any survivor benefit payable to a former spouse does not affect any benefit payable to other surviving family members.

Survivor benefits are subject to the earnings test.

HOW WORK AFFECTS THE SOCIAL SECURITY BENEFIT

A beneficiary age 62 to 65 can lose some or all of his/her Social Security benefit by working. This is because beneficiaries are subject to **earnings limits**. These limits are set each year and differ by age group. In 2003 the limit is \$11,520 for beneficiaries under 65. A beneficiary age 65 or over in all months of the year can earn any amount without loss of benefits. Beneficiaries who expect to earn more than the annual limit are asked to contact Social Security so that the benefit can be adjusted promptly. Earnings must be reported by April 15 of each year. Failure to report expected earnings may result in an overpayment. This is in addition to Federal income tax returns.

Earnings, which exceed the limits above, are considered **excess earnings**.

If younger than 65 and earning more than the limit, **\$1** of benefits will be lost for each **\$2** of earnings over the limit. Social Security recovers overpayments of benefits by reducing benefits payable to the worker in future months until the debt is repaid.

Kinds of Earnings that Cause Loss of Benefits

Wages received as an employee and net earnings from self-employment, bonuses, commissions, fees and earnings from all types of work, including work not covered by Social Security count for the retirement test.

Initial Year of Retirement

If earnings exceed the yearly limit in the initial year of retirement, a **Special Monthly Earnings Test** will be applied. Regardless of how much is earned during the year, a full Social Security benefit is payable for any month in which earnings are below the limit. In 2003, the limit is \$2560/mo for individuals who retire at age 65, and \$960/mo for those who retire at ages 62 to 64. Self-employed beneficiaries will receive benefits for any month in which they do not perform substantial work. Work of more than 45 hours per month is generally considered substantial, however work between 15 and 45 are considered substantial if involving management or highly skilled occupations. When earnings for a particular month exceed the limit by even \$1 the beneficiary is ineligible for any payment.

APPLYING FOR BENEFITS

Payment of Social Security benefits is not automatic--individuals must file a claim to receive benefits. A visit to the SSA is not necessary. Most applications can be completed over the telephone by calling 1-800-772-1213 between 7 a.m. and 7 p.m. EST, Monday through Friday. Calls are heaviest during the middle of the day, beginning of the week, and the beginning of the month. Individuals can also file a claim for benefits on the SSA web site, and can contact their local SSA offices for assistance.

Family members and survivors should be advised to apply for benefits promptly because, in some cases, benefits may not be retroactive. The SSA requires original documents or agency certified copies to process a claim. Complete instructions on the application process may be obtained from the SSA. Depending on the type of claim, the following documents may be required.

- Claimant and deceased employee's social security numbers
- Claimant's birth certificate
- Death certificate or funeral director's statement (for survivors benefits)
- Widow or widower's marriage certificate
- Marriage and divorce papers if claimant is a divorced spouse
- Children's birth certificates and social security numbers
- Employee's W-2 forms for most current year, or tax return, if self-employed
- Checking account information for direct deposit
- DD214, military discharge papers, if applicable

BENEFIT ESTIMATES

In February 1995, SSA began mailing a *Personal Earnings and Benefit Estimate Statement* to individuals age 60 or older who were not currently receiving Social Security benefits, but had earnings credited to his/her Social Security number. In October 1999, SSA began mailing a redesigned statement to all individuals age 25 or older. The statement identifies taxable earnings reported by employers and the estimated Social Security taxes paid. It provides an estimate of the Social Security benefit that the worker can expect to receive at full retirement as well as benefits that may be payable to the worker or family members in the event that a disability or death occurs before retirement. Federal employees should be advised that the statements do not provide estimate reductions for GPO and WEP. In the past, benefit estimate statements were available only upon request. The law now requires that mailings be done automatically and each year. The redesigned statements will provide the opportunity to verify the accuracy of earning records as well as serve as a valuable financial planning tool. Statements with incorrect earnings, name, or Social Security number should be reported to SSA at 1-800-772-1213.

Any individual, regardless of age, may request *Your Social Security Statement* by calling the toll free number at any time.

TAXES AND SOCIAL SECURITY

Social Security benefits are generally not taxable if they are the only income. However, for persons with substantial income in addition to their Social Security benefits, they may have to include part of their benefits in their taxable income. To determine whether any of the benefits are taxable, the beneficiary must figure the total amount of income and one half of their benefits and compare the total to a **base amount** for the filing status, as explained.

50% Rule

If the beneficiary receives income during the year in addition to benefits, up to 50% of the benefits could be included in taxable income if the income is more than the following **base amounts**:

- \$25,000 if single, head of household, or qualifying widow (er);
- \$25,000 if married filing separately and *not* filing a joint return and did *not* live with a spouse at any time during the year;
- \$32,000 if married filing a joint return and did live with a spouse at any time during the year;
- \$0 if married and *not* filing a joint return and *did* live with a spouse at any time during the year.

85% Rule

If the beneficiary receives income during the year in addition to the benefits, up to 85% of the benefits could be included in the taxable income if the income is more than the following **adjusted base amounts**:

- \$34,000 if single, head of household, or qualifying widow (er),
- \$34,000 if married filing separately and lived apart from spouse for the year
- \$44,000 if married filing jointly, or
- \$0 if married filing separately and lived with spouse at any time of the year

The 50% rate is used to figure the taxable part of income that exceeds the base amount but does not exceed the higher adjusted base amount. The 85% rate is used to figure the taxable part of income that exceeds the adjusted base amount.

If the income:

- 1) is equal to or less than the base amount, none of the benefits are included in taxable income,
- 2) exceeds the base amount but does not exceed the adjusted base amount, no more than 50% of the benefits can be included in taxable income, or
- 3) exceeds the adjusted base amount, no more than 85% of the benefits can be included in taxable income

At the end of the year, a Form 1099 (Social Security Benefit Statement) is sent to each beneficiary showing the amount of benefits received along with a worksheet (IRS Notice 703). This worksheet can be used to figure whether any portion of Social Security benefits are taxable.

INTERACTION OF THE SOCIAL SECURITY PROGRAM WITH THE FEDERAL RETIREMENT SYSTEMS

CSRS and Catch-62

Individuals first employed in positions covered by CSRS before October 1, 1982 who performed post- 1956 active duty military service may receive credit for the military service if CSRS retirement occurs prior to age 62. However, if no military service deposit is made and the individual is eligible for Social Security benefits, the CSRS annuity must be reduced by eliminating the service credit at age 62. OPM is required to contact SSA to determine entitlement to Social Security. If there is no Social Security eligibility, then there is no reduction of the CSRS annuity. OPM will not request any further verification for that individual, so if entitlement to Social Security occurs at a later date, after age 62, the CSRS annuity would not be reduced.

CSRS and Social Security Survivor Benefits

If the deceased was first covered by CSRS before October 1, 1982 and had post-1956 military service, the decision to make a deposit for the military service is directly related to the survivor's eligibility for Social Security survivor benefits. The survivor of a deceased employee may be entitled to immediate Social Security survivor benefits if the employee was fully insured under Social Security. In this case, the survivor must pay the nonrefundable deposit in order to have the post-1956 military service included in the CSRS survivor annuity computation. If the deposit is not paid, the military service may be included in the computation in the future, if the survivor loses entitlement to Social Security survivor benefits based on the deceased employee's service. This could potentially occur if the survivor becomes eligible for Social Security benefits based on his/her own earnings that exceed the survivor benefit, if the survivor marries before age 60, or if a minor child reaches age 16 and Social Security benefits stop. However, the post-1956 military service will again be eliminated if the survivor later becomes entitled once again to Social Security benefits based on the deceased employee's service. If the survivor is not eligible for Social Security survivor benefits, the post-1956 military deposit need not be paid.

If it is known that a survivor will become eligible for Social Security in the future, a reduction in the CSRS survivor annuity may be avoided by making a deposit for the post-1956 military service prior to the final adjudication of the claim. The survivor may also receive credit in the CSRS survivor benefits computation without making the deposit. However, if he/she becomes entitled to Social Security based on the deceased employee's military service, generally at age 60, the post-1956 military service will be eliminated from the CSRS computation and the CSRS spousal survivor annuity will be reduced.

Example #1: Jack dies in service without making a deposit for 4 years of post-1956 military service. Jack is fully insured under Social Security at the time of death. The surviving spouse, Jill, is age 60 and eligible for an immediate Social Security survivor benefit. Jill makes the military deposit and her CSRS survivor annuity computation includes the 4 years of post-1956 military service.

Example #2: Jack dies in service without making a deposit for 4 years of post-1956 military service. Jack is fully insured under Social Security at the time of death. The surviving spouse, Jill, is age 50, will not be eligible for Social Security survivor benefits until age 60. The military service will be used in the computation of Jill's CSRS spousal survivor annuity whether or not she makes the deposit for the 4 years of post-1956 military service. Jill decides not to make the deposit. When Jill is 60 and becomes eligible for the Social Security survivor benefit, her CSRS spousal survivor annuity is recomputed to exclude the 4 years of military service and her CSRS spousal survivor annuity is reduced.

CSRS Offset Annuities

When CSRS Offset employees retire, they receive full CSRS benefits until they are eligible for Social Security benefits. At that time, the CSRS benefit is offset by the

portion of their Social Security benefit that represents the period of time they were covered by both CSRS and Social Security. The employee's gross monthly annuity will be reduced by the offset amount, which is calculated by the Social Security Administration.

The offset amount equals the **lower** of the following two amounts:

1. The portion of the Social Security benefit attributable to the (post 1983) offset service,
OR:
2. The total Social Security benefit multiplied by a fraction equaling the nearest whole number of (post 1983) offset years divided by 40.

EXAMPLE: Annuity before offset: \$800.00
Offset Service: 3 yrs 8 mos (4 yrs)
SS Payable: \$350.00
SS w/o Offset*: \$325.00
(* based on covered employment other than CSRS Offset; e.g., private industry, self employment)

Computing the Offset:

1. \$350.00		
<u>\$325.00</u>	Or	2. $\$350 \times 4/40 = \35.00
\$ 25.00		

Annuity After Offset:
(\$ 800.00 - \$25.00) = **\$775.00**

The offset applies if the employee is **eligible** for benefits from the Social Security Administration, regardless of whether they have applied for the SSA benefit or have actually begun to receive it. The offset is made when the basic requirements for Social Security are met, usually at age 62. There is no provision in the law for the payment of deposit to avoid the offset. The offset rules also apply to disability annuities and survivor annuities regardless of whether they fall under the earned annuity or the guaranteed minimum computation. If the employee never becomes eligible for Social Security benefits, then the offset is never taken and a full CSRS retirement benefit is paid.

CSRS Offset and Social Security Disability Benefits

CSRS Offset employees applying for CSRS disability are required to submit to OPM verification that they have applied to Social Security for disability benefits (see 5 CFR 831.1006). OPM will reduce the amount of the CSRS benefit if the employee is found to be eligible for Social Security disability benefits. If a CSRS disability annuitant who is not entitled to Social Security disability benefits becomes eligible for old-age benefits, the

CSRS annuity will be offset. The formula for this reduction is the same as the CSRS Offset reduction that occurs when a nondisability annuitant becomes eligible for old age retirement. (See Section 50A3.1-4 of the CSRS and FERS Handbook.)

CSRS Offset and Social Security Survivor Benefits

Survivor benefits payable to the spouse of a deceased CSRS Offset employee are the same as those payable upon the death of an employee with full CSRS coverage ***until and unless*** the survivor becomes eligible for Social Security survivor benefits. Normally, the surviving spouse will become eligible for Social Security survivor benefits at age 60 unless the spouse is disabled or is caring for a minor child. At that time, the CSRS annuity will be offset by the amount of the Social Security benefit.

FERS Employees and Social Security Disability Benefits

Employees covered under the Federal Employees Retirement System are covered by the Social Security Act. Therefore, a FERS employee applying for FERS disability is required to apply for SSA disability. If the employee is still working he/she will generally be denied SSA benefits due to earnings equal to or exceeding the SGA. Employees who have been denied due to SGA may reapply to SSA after they have stopped working.

The FERS disability computation provides an annuitant:

- ◆ First 12 months of eligibility: 60% of the High -3 average salary MINUS 100% of any Social Security benefit
- ◆ After first 12 months of eligibility: 40% of the High-3 average salary MINUS 60% of any Social Security benefit
- ◆ At age 62: The disability annuity is recomputed to reflect the amount the individual would have received if he or she had continued working until the day before his/her 62nd birthday and retired under FERS optional retirement provisions. The total service used in the computation is increased by the amount of time the individual received a disability annuity.

FERS and Social Security Survivor Benefits

Survivors of deceased FERS employees may be eligible for a benefit under Social Security as well the FERS Basic Death Benefit and Survivor Annuity. Post-1956 military service may not be credited under FERS without a deposit.

Children's Benefits: Any monthly FERS survivor benefit payable to a child of a deceased employee is reduced by the total Social Security benefit. In most cases the FERS benefit is reduced to \$0 and children enrolled in school full time may receive Social Security benefits until age 19. Since the FERS children's benefit is payable to full time students up to age 22, it is possible to receive that benefit when the Social Security terminates. There is no reduction to the FERS benefit if the child is not entitled to Social Security.

WINDFALL ELIMINATION PROVISION

The Windfall Elimination Provision (WEP) is a provision of law which requires that the Social Security benefit amount be calculated using a formula devised specifically to prevent government workers from receiving a windfall. It primarily affects people who spent most of their careers working in government jobs with coverage under CSRS or for employers who do not withhold Social Security taxes. It affects people who also worked at other non-government jobs or who switched to FERS, where they paid Social Security taxes long enough to qualify for Social Security benefits.

Social Security benefits replace a percentage of a worker's preretirement earnings normally a 35-year period. WEP applies when an individual has less than 35 years of employment with full social security deductions. Benefits are calculated to ensure that lower-paid workers get a higher percentage return on their lifetime earnings. Before the WEP law was passed, government employees had their Social Security benefits computed as if they were long-term, low-wage workers. Thus, they received higher Social Security benefits in addition to their government pension. The modified formula eliminates this so-called "windfall." The formula is used in figuring the Social Security benefit beginning with the first month the retiree is in receipt of both a Social Security benefit and the other pension.

The modified formula **does not** apply to survivor benefits. It also **does not** apply if:

- ◆ The person is a Federal worker first hired after December 31, 1983; (These people are either covered under the Federal Employees' Retirement System or under the Federal Insurance Contributions Act (FICA) only);
- ◆ The person was employed on January 1, 1984, by a nonprofit organization that was mandatorily covered under Social Security on that date;
- ◆ The person's pension is based solely on railroad employment;
- ◆ The person worked where he/she did not pay Social Security taxes before 1957;
- ◆ The person has 30 or more years of substantial earnings under Social Security;
- ◆ The person's date of birth is before January 2, 1924; or,
- ◆ The person was eligible for a pension before 1986 under an early-out option and the worker meets all requirements for the pension other than having actually filed.

WEP and FERS Annuities with a CSRS Component

Individuals, who are under FERS but will have a CSRS component in the computation of their annuity, will also be subject to the WEP. The reduction to the Social Security benefit, however, will not be as great as for individuals who have no service covered by Social Security. The Social Security benefit will be computed using the WEP formula, but it will be prorated using months of service that are both covered and not covered by Social Security.

WEP and CSRS Offset

CSRS Offset employees are also subject to the WEP. When the reduction or offset is calculated in the CSRS Offset retiree's OPM benefits, the Social Security benefit used to calculate the reduction will be based on the WEP formula, if applicable.

Note: A guarantee is provided to protect workers with relatively low pensions. In no case will a worker's PIA be reduced by more than one-half of his/her pension from service not covered by Social Security.

GOVERNMENT PENSION OFFSET

The Government Pension Offset (GPO) is a provision of the Social Security law. It reduces the survivor or spousal benefit if the individual entitled to the benefit is receiving a pension based on ***his/her own employment*** from a federal, state, or local government, which was not covered by Social Security. The offset reduces the Social Security benefit by two-thirds of the government pension. The GPO applies to retirees under the Civil Service Retirement System (CSRS). Employees who retire under the Federal Employee Retirement System (FERS) or CSRS Offset are not subject to reduction of Social Security benefits. CSRS employees who elect to transfer to FERS on or after July 1, 1988 must be covered by FERS for 5 years to be exempt from the offset.

Example: Susan retired from the federal government and earns a Civil Service Retirement System (CSRS) pension of \$600 per month. She did not pay Social Security taxes. Based on her deceased husband's employment record, she is eligible for a \$500 per month Social Security benefit. Under the provisions of GPO, Susan's Social Security will be reduced and she will receive \$100 per month in widow's benefits. The computation used to calculate Susan's benefit under the offset provision is illustrated below.

	\$500	(Widow's Social Security benefit)
-	<u>\$400</u>	(two-thirds of Susan's monthly \$600 CSRS pension)
	\$100	(actual Social Security benefit payable under GPO)

MEDICARE

Medicare is the country's health insurance program for people age 65 or older, certain people with disabilities who are under 65, and people of any age who have permanent kidney failure. It provides basic protection against the cost of health care, but does not cover all medical expenses or the cost of most long-term care. Medicare is comprised of two parts, Hospital Insurance (Part A) which is financed by the payroll Federal Insurance Contributions Act (FICA) taxes, and Medical Insurance (Part B) which is partly financed by monthly premiums paid by enrollees. Individuals must be fully insured for Social Security to meet eligibility for Medicare.

Prior to 1983, Medicare did not cover Federal employees. Beginning in January 1983, employees covered by CSRS began paying the Medicare portion of FICA taxes. By law, all Federal employees who worked during January 1983 received “deemed” quarters of coverage for purposes of Medicare for any Federal service prior to January 1983. The passage of the Federal Employee Retirement Systems (FERS) Act brought all new Federal employees after 1983 under Social Security and Medicare. All Federal employees, including those not covered by Social Security, are subject to payroll deductions of 1.45% of basic pay to cover the Medicare Hospital Insurance portion of the Social Security tax.

Medicare Part A

Medicare Part A helps pay for inpatient care in a hospital or skilled nursing facility, or for care from a home health agency or hospice. If admitted to a hospital, Medicare provides coverage for a semiprivate room, meals, regular nursing services, operating and recovery room costs, intensive care, drugs, laboratory test, X-rays, and all other medically necessary services and supplies. The calendar year 2003 Part A deductible is \$840 per benefit period. A benefit period begins the day of hospitalization and ends upon release. There is no limit to the number of benefit periods a participant can have. Except for the deductible amount Medicare helps pay for inpatient hospital services for up to 90 days in each benefit period. The patient must pay the deductible for the first 60 days in each benefit period. If the stay exceeds 60 days, the patient will be responsible for coinsurance of \$210 a day up to a maximum of 30 days. After 90 days, the patient may draw upon the 60 additional lifetime reserve days. Coinsurance of \$420 a day is paid for these 60 additional lifetime reserve days. The lifetime reserve of 60 days is not renewable.

Medicare Part B

Medicare Part B helps pay for physician services, outpatient hospital care, clinical laboratory tests and various other medical services and supplies, including durable medical equipment. Covered services include surgical services, diagnostic tests and X-rays that are part of treatment, medical supplies furnished in a doctor’s office, and drugs which cannot be self-administered and are part of treatment. Under Part B, Medicare usually pays 80% of the approved charges for doctors’ services and the cost of other services that are covered. However, the patient is responsible for the first \$100 of such covered services in each calendar year.

All persons age 65 and over who are insured for Social Security cash benefits are eligible for premium-free Hospital Insurance, Medicare Part A. Individuals not automatically eligible for Part A may purchase coverage by paying a monthly premium of \$316. In 1983 Federal employees not covered by Social Security, CSRS employees, first began paying the portion of Social Security tax that is creditable for Hospital Insurance. Transitional provisions provide credit retroactively for those employed on January 1, 1983 and before. All federal employees began earning credits for Medicare purposes

beginning January 1, 1983. Medical Insurance, Medicare Part B is available to all those eligible for Medicare Part A but requires payment of a monthly premium. The premium for calendar year 2003 is \$58.70.

Enrollment

Employees or annuitants already getting Social Security cash benefits will automatically receive a Medicare card in the mail upon attainment of age 65. This card will provide verification of Medicare enrollment for Hospital Insurance and Medical Insurance (Part B) benefits should Part B be elected.

Many Federal employees currently retiring are not eligible for Social Security cash benefits but are eligible for Medicare Parts A and B. Employees and annuitants **must** contact the Social Security Administration during an enrollment period to file an application in order to activate the Medicare coverage. The initial enrollment period is a seven-month period that begins three months before initial entitlement to coverage. Any one who declines to enroll during the initial enrollment period may enroll during a general enrollment period. The general enrollment period is each year from January 1st through March 31st. Coverage begins with the following July. The Part B premium rate for a person who enrolls after the first period when enrollment is open, or who reenrolls after terminating coverage, will be increased by 10% for each full 12-month period the person stayed out of the program. The penalty will not apply to those persons who are employed and covered by the Federal Employee Health Benefits (FEHB) Program when age 65 is attained. Employees in such a circumstance may opt not to enroll in Medicare and will be permitted a special enrollment period. This seven-month period begins with the month employment ends or the month coverage under FEHB ends.

Medicare and FEHB

Medicare is not subject to an earnings test and may be activated while still employed. In such a case Medicare will be the secondary payer and FEHB primary so long as the beneficiary is employed by the employer providing the coverage. Upon retirement Medicare will be the primary payer and FEHB secondary. An employee may reject the employer's plan and retain Medicare as the primary payer. However, employees should carefully weigh the disadvantages of dropping FEHB as Medicare does not cover 100% of all costs. Additionally, Medicare coverage does not count toward the 5 years/first opportunity requirement to carry FEHB into retirement.

Examples: Primary Payer – Medicare or FEHB

Jack is 66, his spouse is 63, he is an active employee with the Federal government, and he has family FEHB and Medicare. The primary payer is FEHB.

Jack is 64, his spouse is 67, he is an active employee with the Federal government, and he has family FEHB and Medicare. The primary payer is FEHB.

Jack is 66, his spouse is 63, he is a CSRS annuitant, and he has family FEHB and Medicare. The primary payee is Medicare.

Jack is 64, his spouse is 67, he is a FERS annuitant, and he has family FEHB and Medicare. The primary payee is Medicare.

Under the present TRICARE program, retired military members and some military dependents may be eligible for health coverage under TRICARE (formerly CHAMPUS). Most TRICARE beneficiaries who become eligible for premium-free Medicare Part A lose their TRICARE eligibility. People who are under 65 and lose TRICARE coverage because of eligibility for Medicare based on final stages of renal (kidney) disease, may later lose their Medicare coverage because their condition improves.

If this happens, TRICARE coverage can usually be reinstated. Dependents of active duty service members can keep both TRICARE and Medicare if they suffer from renal disease. Others who may retain both TRICARE and Medicare include:

- ◆ People who are eligible for Medicare Part B only.
- ◆ People who are covered by Medicare Part A only because they buy it, and
- ◆ People who are entitled to Medicare based on disability. These people must enroll in Part B to keep their TRICARE eligibility.

If a person has both TRICARE and Medicare, Medicare is the first payer of health care claims (unless services are furnished by a federal provider such as a military hospital). If Medicare does not pay the charges in full, TRICARE may supplement the Medicare payment up to the amount TRICARE would have paid if there were no Medicare coverage.

ADDITIONAL READING

Family Benefits: SSA Publication No. 05-10024, *Understanding Social Security*

Survivor Benefits: SSA Publication No. 05-10084, *Survivors*
SSA Publication No. 05-10024, *Understanding Social Security*

Taxes: IRS Publication 915, *Social Security Benefits and Equivalent Railroad Retirement Benefits*
IRS Publication 524, *Credit for the Elderly or the Disabled*

WEP: SSA Publication No. 05-10045, *A Pension From Work Not Covered By Social Security*

GPO: SSA Publication No. 05-10007, *Government Pension Offset*

Medicare: Publication No. HCFA 10050, Your *Medicare Handbook*

The SSA issues a monthly publication which is available to personnel offices. The *Social Security Courier*, SSA Publication No. 05-10110, provides timely and relevant information on the retirement, survivors, disability, and supplemental security income programs, as well as important Medicare information. To obtain a free subscription, write to: Editor, Social Security Courier, Social Security Administration, Office of Public Affairs, Room 4-J-10 West High Rise Building, 6401 Security Boulevard, Baltimore, MD 21235. For Internet users, the publication is available at address <http://www.ssa.gov>.